

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE OPERATING STATUS OF JUSTICEVILLE GAS, INC.))	CASE NO. 89-013
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O R D E R

On January 16, 1989, Justiceville Gas, Inc. ("Justiceville") notified the Commission that it had acquired a portion of a natural gas distribution utility formerly owned by the city of Pikeville, Kentucky, and requested approval of the transfer. Justiceville acquired this utility plant on September 1, 1988 and since the acquisition, has doubled the number of customers served. On February 23, 1989, Columbia Gas of Kentucky, Inc. ("Columbia"), Justiceville's primary gas supplier, filed a Motion for Full Intervention in this proceeding stating as its interest arrearages in amounts owed for gas purchases. This Motion was granted March 1, 1989.

Justiceville was incorporated in Kentucky on August 11, 1988. In the Commission's Order of February 24, 1989, Justiceville was ordered to file information concerning its financial, technical, and managerial capabilities. Justiceville's response of April 28, 1989 raised additional questions concerning its accounting for the acquisition, subsequent plant additions, and the 4 months of operation presented in its 1988 Annual Report. In order to clarify and resolve these additional questions, an informal

conference was held at the Commission's offices on June 27, 1989 between Justiceville, Columbia, and Commission Staff. Immediately before the informal conference, Columbia presented Staff with current billing information regarding accounts with Justiceville. According to Columbia, Justiceville is no longer delinquent in its gas purchase account; therefore, Columbia did not participate in the conference.

In the Commission's Order of February 24, 1989, Justiceville was ordered to provide the accounting entries reflecting the acquisition of the utility plant from Pikeville. These entries were to be prepared in accordance with the provisions of the Uniform System of Accounts ("USoA") for Class C and D Gas Companies. Justiceville was also ordered to submit a 1988 Annual Report reflecting its 4 months of operation in 1988. In Justiceville's response, the acquisition accounting entries contained in Justiceville's response were not prepared in accordance with the provisions of the USoA. The submitted Annual Report contained numerous errors and misclassifications and these items were discussed at length during the informal conference. During the discussion, it was suggested that Justiceville would be instructed as to the proper entries to account for the plant acquisition and certain corrections needed to the Annual Report. Justiceville agreed to then file an amended Annual Report for 1988. The necessary accounting entries and accounting corrections to reflect plant acquisition should be implemented and are detailed in Appendix B of this Order.

Justiceville proposed to adopt the rates that had been charged by Pikeville. Those rates and charges were listed in Item 20 of the response to the Commission's Order of February 24, 1989. Unless specifically prohibited herein, Justiceville is authorized to charge such rates for future service rendered.

At the informal conference, the Staff advised Justiceville to seek approval of a purchased gas adjustment clause ("PGA") to facilitate timely recovery of changes in its wholesale cost of gas. Justiceville filed a PGA on July 12, 1989 with a proposed effective date of August 10, 1989. Subject to minor revisions, the PGA clause is accepted as shown in Appendix A.

On August 3, 1989, Justiceville filed a proposed tariff change to increase the penalty for late payment of bills from the 5 percent Pikeville had charged to 10 percent, with proposed tariff language as follows, "10 percent penalty if not paid by 10th day of month." Without knowledge of Justiceville's meter reading and billing procedures, the Commission cannot approve such tariff language for any late payment penalty regardless of the percentage.

The Commission takes official notice that Mabry Holbrook and Robert Comstock, the principal owners/operators of this system, have many years experience in operating other small gas distribution utilities. In the past, both have demonstrated managerial, financial, and technical expertise sufficient to qualify them to operate small gas distribution utilities and they have maintained satisfactory service to their customers. Therefore, the Commission is of the opinion that the principal

owners/operators of Justiceville have the financial, managerial, and technical expertise to provide reasonable and adequate service to the customers in the area of Justiceville and the transfer should be approved.

IT IS THEREFORE ORDERED that:

1. Within 30 days of the date of this Order, Justiceville shall file with this Commission its tariff sheets setting forth the rates, charges and PGA clause in Appendix A, attached hereto and incorporated herein. Justiceville shall also include its meter readings and billing procedures along with proposed language for a late payment penalty.

2. Within 60 days of the date of this Order, Justiceville shall file an amended 1988 Annual Report, reflecting the accounting entries and corrections contained in Appendix B, attached hereto and incorporated herein.

3. The transfer of a portion of the city of Pikeville's gas system to Justiceville is hereby approved.

Done at Frankfort, Kentucky, this 15th day of September, 1989.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 89-013 DATED 9/15/89

The following rates and charges are prescribed for the customers served by Justiceville Gas Company, Inc.

CURRENTLY EFFECTIVE BILLING RATES

<u>Rate Schedule</u>	<u>Billing Rate</u>
Residential and Domestic:	
Minimum Bill (For First 2 MCF)	\$12.80
All Additional MCF	\$ 6.26

School Tax is added to the total bill.

RULES AND REGULATIONS

- (1) A service charge of \$10.00 will be imposed on any customer whose check is returned from the bank due to insufficient funds. Such accounts will be considered in arrears, subject to penalty and possible termination after notice pursuant to 807 KAR 5:006, Section 11.
- (2) A reconnection charge of \$50.00 shall be paid before service is restored following disconnection.
- (3) No deposits will be required of customers who own the home at which service is rendered. Deposits for renters will be determined on a customer-by-customer basis, according to payment history of the customer and in conformance with 807 KAR 5:006, Section 7.
- (4) For matters not addressed herein, Justiceville Gas Company, Inc., adopts the applicable rules and regulations of the Public Service Commission.

PURCHASED GAS ADJUSTMENT CLAUSE

The rates authorized herein are based upon the wholesale cost of gas to Justiceville as computed upon rates of its wholesale suppliers currently in effect. For the purpose of this purchased gas adjustment clause, these rates shall be considered as the base rates for purchased gas. In the event there is an increase in these base rates, Justiceville shall file with this Commission the following information:

- (1) A copy of the tariff effecting the change in the base rate and a statement relative to the effective date of such proposed change.
- (2) A statement setting out the details of gas purchased under the provision of the base rate for the previous 12 months showing billing under the base rate and under the proposed revised rate applicable to this service.
- (3) A statement setting out the details of gas sold for the previous 12 months.
- (4) A balance sheet as of the end of the latest 12 month period and a statement of operating expenses and revenues in the same detail as reported to this Commission in Justiceville's annual report.
- (5) Such other information as this Commission may request for proper determination of the purchased gas adjustment.

In the event there is a decrease in purchased gas cost or refund, Justiceville shall file the information required in 1, 2 and 4 above.

Upon receipt of this information, this Commission will review the effect of the revised rate on the operation of Justiceville and will issue its Order setting out the purchased gas adjustment that Justiceville shall apply to its rates.

The maximum amount of the adjustment so prescribed shall not produce revenue adjustments, based upon the actual preceding 12-month period, greater than the difference between the purchased gas billed at the then-existing rate and the purchased gas billed at the revised rate.

On and after the effective date of this rate schedule, if any increase or decrease is made in the rate at which Justiceville's gas suppliers sell gas to Justiceville, the unit charges of the aforesaid rate schedule shall be increased or decreased by a purchased gas adjustment determined as follows:

- (1) Gas purchases will be determined by Justiceville under supplier's applicable rate schedule during a period of 12 calendar months ending within 3 months preceding the month of the effective date of the supplier's rate change. Such purchases shall be:
 - (a) at the base supplier rate
 - (b) at the new supplier rate

The difference between these amounts shows the total change in purchased gas costs.

- (2) The total change in purchased gas costs shall be divided by the actual number of cubic feet of gas sold by Justiceville during said 12-month period, yielding the purchased gas adjustment expressed in cents per cubic feet, unless Justiceville's gas loss exceeds 5 percent. The unit charge or credit so determined shall be the purchased gas adjustment applicable to consumer billings.

In instances where the gas loss exceeds 5 percent, the actual gas sales shall be divided by 95 percent, yielding the maximum allowable gas purchases. The maximum allowable gas purchases shall then be multiplied by the base supplier rate and new supplier rate with the difference yielding the total allowable change. The total allowable change shall then be divided by the actual number of cubic feet of gas sold by Justiceville during the said 12-month period, yielding the unit charge or credit applicable to consumer billings.

- (3) The new supplier rate shall become the base supplier rate to be used in measuring the effect of any subsequent supplier rate change. Each such subsequent change shall be treated in the same manner as set forth above for the establishment of a new purchased gas adjustment and for the establishment of a new base supplier rate.

In the event that Justiceville receives from its suppliers a refund of amounts paid to such suppliers in respect of a prior period, Justiceville will apply to the Commission for authority and, upon receipt thereof, make adjustments on the amounts charged to its customers under this provision as follows.

- (1) The "refundable amount" shall be the amount received by Justiceville as a refund. Such refundable amount shall be divided by the number of cubic feet of gas that Justiceville estimates it will sell to its customers during the 4-month period commencing with the first day of the month following receipt of the refund, thus, determining a "refund factor."
- (2) Effective with meter readings taken on and after the first day of the second month following receipt of the refund, Justiceville will reduce by the refund factor so determined any purchased gas adjustment that would otherwise be applicable during such period provided, however, that the period of reduced purchased gas adjustment will be adjusted, if necessary, in order to refund as nearly as possible the refundable amount.
- (3) In the event of any large or unusual refunds, Justiceville may apply to the Commission for the right to depart from the refund procedure herein set forth.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 89-013 DATED 9/15/89

Accounting Entries for Acquisition

Justiceville acquired a portion of the gas distribution system from the city of Pikeville on September 1, 1988. The city of Pikeville did not provide Justiceville with any original cost plant records for the acquisition. Therefore, for accounting purposes, the cost of the plant must be estimated. Based on the condition of the acquired system, the most reasonable estimate of cost would be \$0. Justiceville paid the City of Pikeville \$2,550 for the acquired utility plant. The accounting entries to record the acquisition would be as follows:

Acct. 102 Gas Plant Purchased or Sold	\$ 0
Acct. 114 Gas Plant Acquisition Adjustment	2,550
Acct. 131 Cash	2,550

The acquisition adjustment should be systematically amortized over the estimated remaining life of the related utility plant. Because of the circumstances with this acquisition, it is suggested that the acquisition adjustment be amortized over a 5-year period, or an annual amount of \$510. The entry to reflect the 4-month amortization for 1988 would be:

Acct. 425 Miscellaneous Amortization	\$ 170
Acct. 114 Gas Plant Acquisition Adjustment	\$ 170

$(\$510 \div 12 = \$42.5 \times 4 = \$170)$

Accounting for Additions to Utility Plant

According to the information filed in response to the Commission's Order of February 24, 1989, Justiceville has made these additions to its utility plant:

- A. Replaced 2,250 feet of mains and lines at a cost of \$2,451;
- B. Purchased 30 meters at a cost of \$1,534;
- C. Made miscellaneous replacements at a cost of \$361; and
- D. Purchased a computer at a cost of \$1,539.

These additions should be debited to the following accounts:

Acct. 376 - Mains, for the \$2,451 in main and line replacements

Acct. 381 - Meters, for the \$1,534 in purchased meters

Acct. 391 - Office Furniture and Equipment, for the \$1,539 computer.

The miscellaneous replacements of \$361 should be debited to the appropriate utility plant account, see the USoA for account descriptions. In Justiceville's case, there would be no retirement entries due to the fact the utility plant acquired from the City of Pikeville was recorded at a value of \$0.

All utility plant must be depreciated. Depreciation expense and the accumulated depreciation account are based on straight-line depreciation only. The appropriate service lives can be obtained by contacting the Division of Engineering at the Commission.

Revisions to the 1988 Annual Report

Balance Sheet. Based on the entries discussed previously, the utility plant balance should be revised to reflect these entries. A balance should also be entered for accumulated provision for depreciation, depletion and amortization. This balance includes the accumulated depreciation on the utility plant and the amortization of the gas plant acquisition adjustment. Based on the discussion at the informal conference of June 27, 1989, the balance in the proprietary capital section needs to be adjusted because the balance in the unappropriated retained earnings account does not agree with the statement of retained earnings. Also, the amount of the loan to purchase the utility plant from the City of Pikeville has been entered as the value of Justiceville's common stock. This, in effect, double counts the loan, which has already been recorded as long-term debt.

Income Statement. The income statement is to be prepared on the accrual basis of accounting. From the discussions at the informal conference, this will require a recalculation of the revenues for 1988. In the operation and maintenance expenses, the \$2,451 for main and line replacement and the \$1,534 for meter purchases were recorded as expenses. Utility plant additions are capitalized, not expensed. These items should be removed from the income statement, as well as any other utility plant costs which should be capitalized, but instead were expensed. Finally, the amount of gas sold was reported on the income statement as 2,581 Mcf. On the reconciliation of the natural gas account schedule, sales were reported as 2,668 Mcf, a difference of 87 Mcf. It would appear this amount should have been reported as unaccounted for gas on the natural gas account schedule.

The revisions to the income statement will affect the amount reflected in the statement of retained earnings and, thus, impact the balance sheet.